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DIRECTORATE OF  
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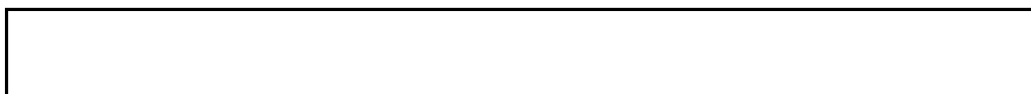
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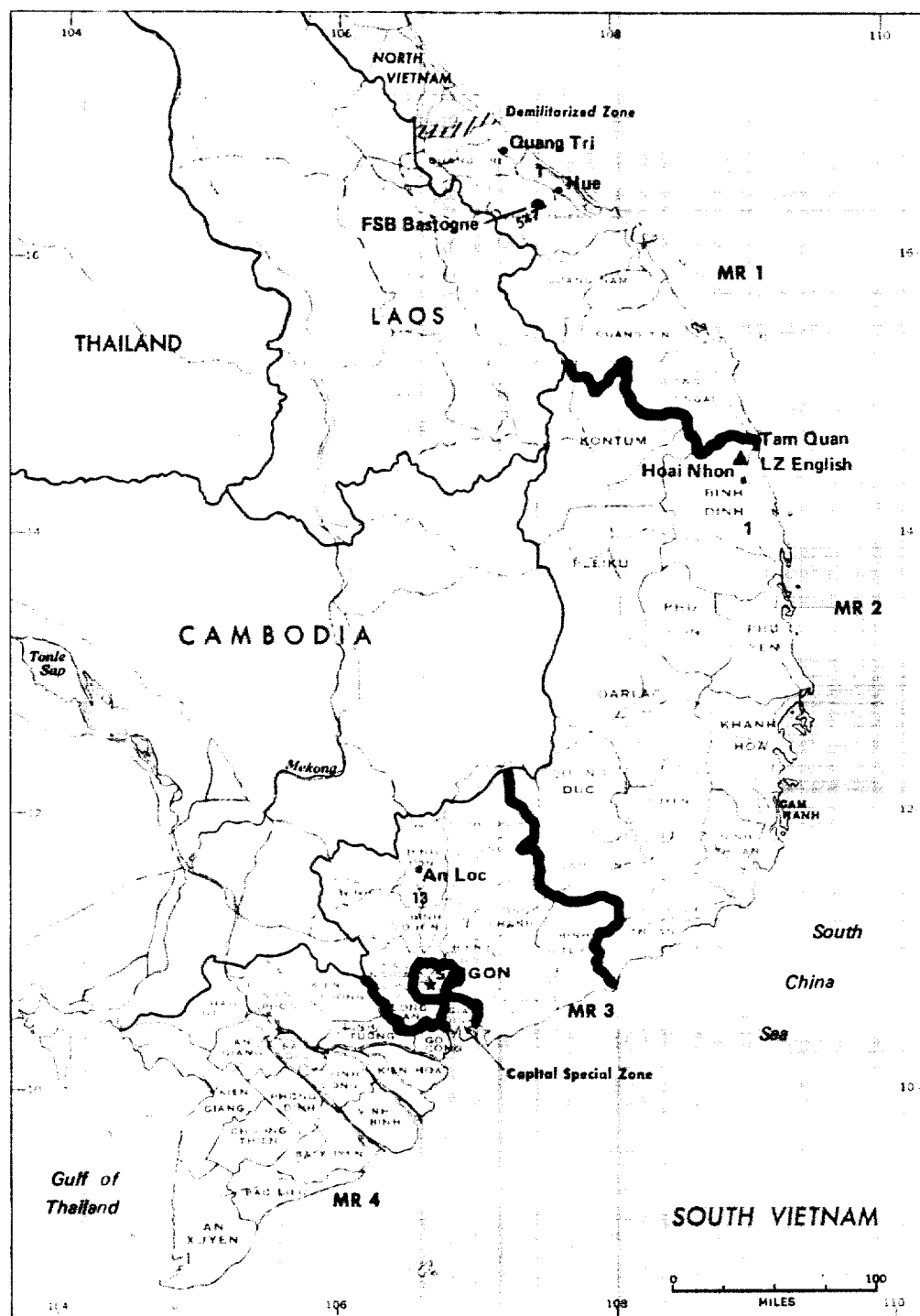
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**SOUTH VIETNAM:** Fighting is heavy in Quang Tri City, where enemy troops entrenched inside the citadel area continue to hold off government assaults.

South Vietnamese paratroops have pushed to the citadel, but so far they have been unable to get inside the fortress through cuts in the wall made by allied air strikes. Moreover, the heavy air strikes apparently have not yet succeeded in breaking up the enemy's underground bunker system in the citadel. South Vietnamese Marine and airborne units north, south, and east of the city report that they continue to be harassed by enemy shelling and occasional ground attacks.

Route 1 between Quang Tri City and Hue is open, but a North Vietnamese regiment remains west of the highway and in position to close the road again. Government defenses west of Hue remain under enemy pressure; more than 2,000 shells were fired at Fire Support Base Bastogne and nearby troop concentrations on Sunday. Units from the South Vietnamese 1st Division have begun to move onto the high ground on both sides of Route 547 near Bastogne in an effort to force the enemy artillery to move out of range of Hue.

In the government's counteroffensive in coastal Binh Dinh Province, troops have recaptured Landing Zone English in Hoai Nhon District. Some reports also indicate that government troops pushed farther north yesterday and retook the district capital of Tam Quan. South Vietnamese Army units near the district capital of Hoai Nhon continue to consolidate their recent gains despite numerous artillery and mortar attacks.

In Military Region 3, fighting continues along parts of Route 13 south of An Loc as government troops attempt to gain control of territory on both sides of the highway.

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**(** EGYPT-USSR: President Sadat said yesterday that the failure of the USSR to honor commitments to Egypt in 1971 led to the current state of Soviet-Egyptian relations. He added, however, that the real cause of the Middle East impasse was the firm US support for Israel.

Sadat, in a rambling and repetitive speech to the Arab Socialist Union (ASU) National Congress, said that differences of view became apparent during his trip to Moscow as president in March 1971, but that these were disagreements between friends and gaps which could be bridged "in the coming stages." He went on to say that during Soviet President Podgorny's trip to Cairo in May 1971 to sign the treaty of friendship, he was assured by the Soviets that the main differences between them would be solved within four days of Podgorny's return to Moscow. Sadat said that still no satisfaction had arrived by October when he was given another Soviet promise for implementation of "this definite agreement between us on this and that and so forth." The year passed--Sadat's self-proclaimed "year of decision"--and the disagreement continued, which, in short, led to his frustrations and his final action last week.

The Egyptian President did not specify the real nature of the differences nor of the Soviet commitment; to do so, he said, would play into the hands of Egypt's enemies. The speech was replete with references to firm US military, political, and economic aid to Israel, pledges of support which have been implemented "automatically and most enthusiastically and violently," in contrast to the limited Soviet response to Egypt's pleas for help.

The speech seemed primarily designed to salve some of the wounds in Moscow and included little ground not covered in some of his earlier speeches or spoken of in Egyptian media. He did make another plea to the ASU delegates to work for national unity of the Egyptian and Arab people.

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EGYPT-ISRAEL: Yesterday morning Egyptian air defense forces launched several surface-to-air missiles across the Suez Canal.

The Egyptians claimed that at least one Israeli F-4 was downed; the Israelis deny any loss. This is the second Egyptian-Israeli air incident this year. On 13 June two Egyptian MIG-21s were shot down when they tried to interfere with an Israeli reconnaissance mission over Egypt's Mediterranean coast.

The incident on 13 June is rumored to have been the result of an attempt by Egyptian pilots to intercept an Israeli flight against Soviet orders or advice, and the incident is said to have become another point of friction between Egyptian and Soviet officers. Egyptian motives and intentions for yesterday's action can only be speculated upon.

President Sadat and a large political and military entourage visited frontline areas on 23 July, and it has been implicit in Sadat's speeches and Muhammad Haykal's political columns that Egypt must recreate a credible threat of Egyptian military action against Israel in order to induce some movement toward a settlement of the no-war, no-peace situation. Even an isolated aerial clash over the ceasefire lines would help to serve Sadat's purpose of raising international fears of new hostilities.

Israeli political leaders may be restrained from retaliating for fear of the effect such an action could have on the Soviet evacuation. In the past, however, Israeli doctrine has been to discourage Egyptian attacks by direct retaliation. Israeli military officials are likely to argue that now is a particularly poor time to deviate from this policy.

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JAPAN-CHINA: Tokyo is moving toward regularized official contacts with the Peoples Republic of China.

Foreign Minister Ohira's meeting on 22 July with two Chinese officials is the most significant Sino-Japanese exchange to date. The foreign minister announced no specific plans for further discussions with the head of the Chinese Trade Office in Tokyo and the official accompanying a visiting Shanghai ballet troupe, but he told the press that Foreign Ministry representatives might have continuing direct contacts with the trade mission.

Ohira's discussions were followed by the formal inauguration on 24 July of a ruling Liberal Democratic Party council to foster a party consensus on normalization. Prime Minister Tanaka presented to the council a ten-point statement of principles for relations with Peking, emphasizing Japanese recognition of China's "five principles of peace" and a "full understanding" of Peking's principles for normalization. His attendance at the meeting reflects the importance he assigns to achieving party unity, as well as Tokyo's desire to move ahead rapidly.

These developments are the latest in a series of increasingly friendly Sino-Japanese exchanges since Tanaka assumed office on 6 July. The new government has conveyed--both publicly and privately--its determination to improve relations, and Peking's response has been prompt and positive. Chou En-lai has welcomed the Tanaka cabinet and, through a visiting Japanese Socialist, last week extended an informal invitation for Tanaka to visit Peking. No date has been set for such a summit meeting, but Tanaka undoubtedly would like to go to the mainland before he calls general elections in late 1972 or early 1973.

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Although the Japanese have yet to reach final decisions on the details of normalization, and conservative elements within the ruling party are urging a go-slow approach, Peking's recent encouraging statements have engendered a hopeful mood in Tokyo. Tanaka will be prudent, but will wish to show some definite progress. The government is anxious to establish regularized contacts to take the place of communication with Peking via private visitors. Ohira's weekend meeting with the Chinese officials appears to have set the stage for Foreign Ministry - Trade Office exchanges as a vehicle for the preliminary discussions leading to official negotiations.



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VENEZUELA: Romulo Betancourt, long-time leader of the Democratic Action Party, has given an entirely new cast to the 1973 elections by announcing that he will not be a candidate for president.

The 64-year-old Betancourt, who has headed the government twice, said he was taking himself out of the running to give other party leaders a chance. Strong factors in the decision, however, may have been his age and poor health. At least four potential nominees have been waiting for Betancourt's decision, and the party convention, which begins 18 August, now could turn into a real battle. The person most likely to emerge as the standard bearer is party secretary-general and former interior minister, Carlos Andres Perez.

Betancourt's withdrawal may help the governing Christian Democratic party's rather colorless candidate, Lorenzo Fernandez. The person who stands to benefit most, however, is former dictator Marcos Perez Jimenez, whose following has been increasing markedly in recent months. Democratic Action leaders certainly realize this and, while there will probably be a struggle for the top slot on the ticket, once a candidate is chosen, the party will try hard to avoid a repetition of the disastrous splits of the past.

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BULGARIA: The Supreme Court on 20 July sentenced the former chief of the merchant fleet, Georgi Naydenov, to 20 years' imprisonment for "fraud, misconduct, and other financial violations." The regime thus has closed the books on the worst known economic scandal in 25 years. The illegal activities of the former chief and several of his subordinates came to light in November 1969. The slowness of the regime in reaching a verdict as well as the five-month-long trial in the Supreme Court suggest that Naydenov's activities may have involved higher level party and government officials. [REDACTED]

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CANADA: Provincial governments are resisting Ottawa's efforts to curb foreign borrowing. Ontario, which accounted for \$200 million of a total of \$600 million in provincial borrowing abroad during the past three months, has refused to give Ottawa a firm commitment to limit its bond sales in foreign capital markets. Other provincial governments have told Finance Minister Turner that they will continue to borrow overseas when necessary to obtain the lowest interest rates. Ottawa fears that the inflow of foreign funds from provincial borrowing is contributing to upward pressure on the Canadian dollar that could hurt the competitive position of Canada's exports in international markets. As a first step toward dealing with the problem, the government plans to set up a central clearing house to coordinate provincial borrowing abroad. [REDACTED]

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